

Message Text

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ORIGIN EB-07

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FM SECSTATE WASHDC

TO AMEMBASSY SEOUL PRIORITY

C O N F I D E N T I A L STATE 182292

E.O. 11652: GDS

TAGS:

SUBJECT: COTTON CONTRACT PROBLEM

REF: STATE 164609

1. LATEST REPORT OF L/C,S OPENED AGAINST CONTRACTS LISTED ON ANNEX OF LETTER OF ASSURANCES INDICATES THAT U.S. SHIPPERS HAVE RECEIVED L/C'S COVERING ABOUT 81.5 PERCENT OF COTTON LISTED UNDER PERIOD I WHICH ENDED JUNE 30. ;HILE THIS IS A VERY RESPECTABLE SHOWING, U.S. SHIPPERS ARE INCREASINGLY CONCERNED THAT SUFFICIENT PRIVATE FINANCING WILL NOT BE AVAILABLE TO COVER REMAINDER OF PERIOD I CONTRACTS.

2. AS EMBASSY IS AWARE, SWAK, HEMMED IN BY TRADITIONAL METHODS OF DISTRIBUTING CCC CREDIT TO MILLS, HAS ALLOCATED CCC IN SUCH A WAY THAT SOME MILLS DO NOT HAVE SUFFICIENT CREDITS FOR PERIOD I CONTRACTS WHILE OTHER MILLS HAVE CREDIT AVAILABLE FOR CONTRACTS IN BOTH PERIODS I AND II. IN PRINCIPLE, THIS SHOULD NOT BE A MAJOR PROBLEM BECAUSE PRIVATE CREDIT COULD FILL THE GAP. HOWEVER, DUE TO KOREA'S FOREIGN EXCHANGE POSITION AND FEARS OF A CONFLICT WITH CONFIDENTIAL

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NORTH KOREA, PRIVATE FINANCING HAS BEEN AND REMAINS EXTREMELY DIFFICULT TO OBTAIN.

3. KOREAN TEXTILE MILL DELEGATION VISITED THE U.S. DURING

THE WEEK OF JULY 14 TO REQUEST HELP IN OBTAINING PRIVATE

CREDIT AS WELL AS ADDITIONAL CCC CREDIT. DELEGATION WAS TOLD THAT ADDITIONAL CCC CREDIT WOULD NOT BE AVAILABLE UNTIL L/C'S HAD BEEN OPENED FOR CONTRACTS COVERED BY ASSURANCES. IN SPITE OF SITUATION OUTLINED ABOVE, REQUEST FOR MORE CREDIT, EVEN BEFORE ALL PERIOD I CONTRACTS HAD BEEN OPENED, SEEMED EXCESSIVE TO BOTH U.S. GOVERNMENT AND INDUSTRY REPRESENTATIVES. THIS IS PARTICULARLY IN LIGHT OF DISCUSSION RELATING ADDITIONAL CCC CREDIT TO PERFORMANCE WHICH WAS CONTAINED IN KENNARD STEPHEN'S LETTER OF APRIL 26, 1975 TO SUN-KI LEE: "AN IMPORTANT ASPECT OF THIS PERFORMANCE WILL BE THE EXTENT TO WHICH KOREAN MILLS HAVE OPENED LETTERS OF CREDIT ON OUTSTANDING CONTRACTS NOT COVERED BY CCC CREDIT.

4. WE ARE AWARE THAT COTTON PROBLEM IS CAUGHT UP IN LARGER PROBLEM OF KOREA'S FOREIGN EXCHANGE DIFFICULTIES. NEVERTHELESS, THE ROKG IN ASSURANCES AGREED TO TAKE "ALL NECESSARY MEASURES TO ENSURE THAT LETTERS OF CREDIT ARE OPENED FOR CONTRACTS LISTED IN ANNEX A." AT PRESENT CONJUNCTURE, THIS MEANS PROVIDING OR ENSURING PROVISION OF APPROXIMATELY 67 MILLION DOLLARS OF PRIVATE CREDIT BEFORE AUGUST 31.

5. WHILE IN U.S., SOME OF KOREAN PRESIDENTS MAINTAINED THAT U.S. SHIPPERS WERE AT FAULT IN NOT PRODUCING PRIVATE FINANCING OR, TO USE THEIR TERM, "SHIPPERS' USANCE." THIS TERM HAS ARISEN TO DESCRIBE PRACTICE WHEREBY U.S. SHIPPER LOCATES AND ARRANGES PRIVATE CREDIT FOR COTTON SALES IN HARD CURRENCY. U.S. SHIPPERS HAVE OFTEN UNDERTAKEN THIS RESPONSIBILITY BECAUSE THEY ARE CLOSER TO MAJOR MONEY MARKETS AND BECAUSE IT ENSURES AVAILABILITY OF CREDIT. HOWEVER, THIS DOES NOT MEAN, AS MILL PRESIDENTS MAINTAINED, THAT RESPONSIBILITY FOR OBTAINING PRIVATE CREDIT RESTS WITH U.S. SHIPPERS. SHIPPERS SHOULD AND ARE ALMOST INVARIABLY EXERTING THEMSELVES TO FIND CREDIT. HOWEVER, IF CREDIT IS CONFIDENTIAL

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NOT FORTHCOMING THROUGHT SHIPPER, ULTIMATELY RESPONSIBILITY RESTS WITH KOREAN MILLS AND ROKG.

6. CREDIT PROBLEMS ARE ALSO MULTIPLYING DIFFICULTIES WITH "ON CALL" CONTRACTS. MILLS ARE REQUESTING THAT PRICE BE FIXED (SINCE COTTON PRICES ARE CURRENTLY RISING) AND U.S. SHIPPERS ARE HESITATING TO DO SO FOR FEAR MILL CANNOT OBTAIN CREDIT.

7. REQUEST EMBASSY REVIEW COTTON CONTRACT SITUATION WITH APPROPRIATE OFFICIALS IN BOTH EPB AND SWAK, CALLING ATTENTION TO RESPONSIBILITIES OF MILLS AND OF ROKG UNDER PARA 5 OF ASSURANCES. SPECIFICALLY, WE WOULD APPRECIATE

KNOWING WHAT STEPS ROKG PLANS TO TAKE TO ENSURE AVAIL-

ABILITY OF REQUIRED PRIVATE CREDITS. IN THIS REGARD,
EMBASSY SHOULD NOTE THAT ROKG REGULATION PREVENTING MILLS
FROM PAYING MORE THAN 2 ABOVE LONDON INTERBANK RATE IS,
TO SOME EXTENT, BLOCKING PRIVATE CREDIT WHICH IS NOT
AVAILABLE AT LESS THAN 4 LIBR. IN ADDITION, WE BELIEVE
AS PER REFTEL, SWAK SHOULD RE-ALLOCATE CCC CREDIT OR USE
\$10 MILLION EAR-MARKED FOR ANNEX B TO COVER OLDEST SALES
FIRST. WE REALIZE THAT THIS IS NOT AN ATTRACTIVE COURSE
OF ACTION FOR SWAK, BUT IT WOULD ALLOW COTTON TO MOVE
WHICH IS TO THE IMMEDIATE PROBLEM. INGERSOLL

CONFIDENTIAL

<< END OF DOCUMENT >>

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